

**RURAL WATER DISTRICT NO. 6
HUGHES COUNTY, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2013 AND 2012**

RURAL WATER DISTRICT NO. 6,
HUGHES COUNTY, OKLAHOMA
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YEARS ENDED AUGUST 31, 2013 AND 2012

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Kimberlye R. Mayer, CPA, P.C.

735 West Doolin

Blackwell, OK 74631

(580) 363-1453
Fax (580) 363-0068

Independent Auditor's Report

Board of Directors
Rural Water District No. 6, Hughes County, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Rural Water District No. 6, Hughes County, Oklahoma, which comprise the statements of net position as of August 31, 2013 and 2012 and the related statements of revenues and expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Rural Water District No. 6, Hughes County, Oklahoma's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Rural Water District No. 6, Hughes County, Oklahoma's internal control. Accordingly, we express no such an opinion. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinions, the financial statements referred to above, present fairly, in all material respects, the net position of Rural Water District No. 6, Hughes County, Oklahoma as of August 31, 2013 and 2012, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

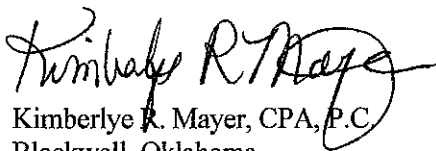
Other Matters

Required Supplementary Information

Rural Water District No. 6, Hughes County, Oklahoma has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basis financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basis financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated October 10, 2013 on our consideration of Rural Water District No. 6, Hughes County, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
October 10, 2013

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Board of Directors
Rural Water District No. 6, Hughes County, Oklahoma

We have audited the financial statements of Rural Water District No. 6, Hughes County, Oklahoma as of and for the year ended August 31, 2013 and have issued our report thereon dated October 10, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and in *Government Auditing Standards*, issued by the Comptroller General of the United States. Rural Water District No. 6, Hughes County, Oklahoma has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board requires to supplement, although, not be a part of the basic financial statements.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Rural Water District No. 6, Hughes County, Oklahoma's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Rural Water District No. 6, Hughes County, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of the Rural Water District No. 6, Hughes County, Oklahoma's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of control deficiencies, in internal control that there is reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water District No. 6, Hughes County, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

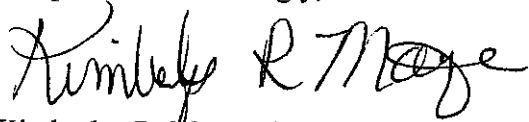
However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Response to Findings

Rural Water District No. 6, Hughes County, Oklahoma's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Rural Water District No. 6, Hughes County, Oklahoma's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, reading "Kimberley R. Mayer". The signature is fluid and cursive, with the first name being the most prominent.

Kimberlye R. Mayer, CPA, P.C.

Blackwell, Oklahoma

October 10, 2013

RURAL WATER DISTRICT No. 6
HUGHES COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED AUGUST 31, 2013

Material Weakness in Internal Control Over Financial Reporting: Inadequate Segregation of Duties:

Criteria: The segregation of duties and responsibilities between different individuals and the reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

Condition: Presently, the same individual is responsible for water service billings and receiving payments; making and recording deposits; maintaining billing registers; and reconciling the monthly bank statements. Only limited oversight is provided over this individual in the conduct of their daily functions.

Cause: The entity's limited size has made it difficult for management to fully segregate the duties.

Effect or Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and/or fraud related to the sales and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: The board should evaluate the risks associated with the lack of segregation of duties and consider implementing controls that could mitigate these risks.

Board's Response: The board has concluded that due to the limited number of personnel, an adequate segregation of duties is not achievable and that the cost of correcting the weakness would exceed the benefits that would be derived from it.

FINANCIAL STATEMENTS

AND

NOTES

RURAL WATER DISTRICT NO. 6
HUGHES COUNTY, OKLAHOMA
STATEMENT OF NET POSITION
YEARS ENDED AUGUST 31, 2013 AND 2012

ASSETS

	<u>2013</u>	<u>2012</u>
Current Assets:		
Cash and cash equivalents (Note 2)	\$ 192,342	\$ 178,153
Accounts receivable (Note 5)	43,442	50,661
Prepaid insurance	7,210	6,324
Total Current Assets	<u>242,994</u>	<u>235,138</u>
Restricted Assets:		
Restricted for debt service	56,500	56,500
Other Assets:		
Loan fees (net of accumulated amortization) (Note 6)	16,528	17,334
Reserve certificate	1,000	1,000
Total Other Assets	<u>17,528</u>	<u>18,334</u>
Non-current Assets:		
Property and equipment (net of accumulated depreciation) (Note 3)	2,566,901	2,644,447
Construction in progress		
Total Assets	<u><u>\$ 2,883,923</u></u>	<u><u>\$ 2,954,419</u></u>

LIABILITIES AND NET POSITION

Current Liabilities:		
Accounts payable	\$ 50,121	\$ 16,084
Payroll taxes due	3,379	2,866
Restricted deposits and funds	2,138	1,953
Notes payable (current portion) (Note 4)	19,648	17,370
Total Current Liabilities	<u>75,286</u>	<u>38,273</u>
Non-current Liabilities:		
Notes payable, long term	755,182	776,710
Total Liabilities	<u>830,468</u>	<u>814,983</u>
Net Position:		
Net investment in capital assets	1,792,071	1,850,367
Restricted for debt service and other purposes	56,500	56,500
Unrestricted	204,884	232,569
Total Net Position	<u>2,053,455</u>	<u>2,139,436</u>
Total Liabilities and Net Position	<u><u>\$ 2,883,923</u></u>	<u><u>\$ 2,954,419</u></u>

The accompanying report and notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 6
HUGHES COUNTY, OKLAHOMA
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED AUGUST 31, 2013 AND 2012

Operating Revenue:	2013	2012
Water service	\$ 385,683	\$ 402,091
Late penalties	12,978	9,903
Meter setting fees	3,100	2,000
Other revenues	1,926	2,483
Total Operating Revenue	<u>403,687</u>	<u>416,477</u>
Operating Expense:		
Wages	124,290	92,784
Payroll taxes	10,207	7,354
Employee benefits	11,825	11,643
Water costs	13,446	13,224
Water test fees	3,386	4,865
Contract labor	583	24,390
Fuel and mileage	23,748	20,198
Repairs and maintenance	45,636	33,792
Insurance	11,418	12,881
Director fees	1,400	1,375
Professional fees	40,059	22,861
Office supplies and postage	5,392	6,968
Training		92
Utilities	18,943	20,556
Telephone	4,304	4,491
Other expenses	3,355	1,771
Lawsuit judgement	30,589	
Depreciation and amortization	108,602	102,023
Total Operating Expense	<u>457,183</u>	<u>381,268</u>
Income (Loss) From Operations	(53,496)	35,209
Non-operating Revenue (Expense):		
Interest income	887	1,252
Benefit units	3,850	1,750
Interest expense	(37,222)	(39,558)
Grants		110,000
Total Non-operating Revenue (Expense)	<u>(32,485)</u>	<u>73,444</u>
Change in Net Position	(85,981)	108,653
Net Position, beginning of year	2,139,436	2,030,783
Net Position, end of year	<u>\$ 2,053,455</u>	<u>\$ 2,139,436</u>

The accompanying report and notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 6
HUGHES COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS
YEARS ENDED AUGUST 31, 2013 AND 2012

Cash Flows From Operating Activities:	2013	2012
Cash received from customers	\$ 408,980	\$ 417,297
Other operating cash receipts	1,926	2,483
Cash payments to suppliers for goods and services	(190,442)	(186,025)
Cash payments to employees for services	(124,290)	(92,784)
Net cash provided (used) by operating activities	<u>96,174</u>	<u>140,971</u>
Cash flows from non-capital financing activities:		
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(30,250)	(169,005)
Principal paid on notes and loans	(19,250)	(16,914)
Interest paid on notes and loans	(37,222)	(39,558)
System development fees	3,850	1,750
Grants received		110,000
Net cash provided (used) by financing activities	<u>(82,872)</u>	<u>(113,727)</u>
Cash flows from investing activities:		
Interest on cash and investments	887	1,252
(Increase) decrease in restricted accounts		
Net cash provided (used) by investing activities	<u>887</u>	<u>1,252</u>
Net increase (decrease) in cash and cash equivalents	14,189	28,496
Beginning cash and cash equivalents	178,153	149,657
Ending cash and cash equivalents	<u>\$ 192,342</u>	<u>\$ 178,153</u>
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:		
Income (Loss) from operations	\$ (53,496)	\$ 35,209
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation and amortization	108,602	102,023
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	7,219	3,301
(Increase) decrease in prepaids	(886)	2,036
Increase (decrease) in payables	34,735	(1,598)
Net cash provided (used) by operating activities	<u>\$ 96,174</u>	<u>\$ 140,971</u>

The accompanying report and notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 6,
HUGHES COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2013 AND 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

The Rural Water District No. 6, Hughes County, Oklahoma was created under the provisions of Title 82 of the Oklahoma Statutes, Section 1324.1 – 1324.35 as amended and the laws of the State of Oklahoma. The purpose of this District is to furnish and supply to owners and occupants of property within the corporate limits water, sewer and related facilities and services.

The District is a governed entity administered by an elected Board of Directors that acts as the authoritative and legislative body of the entity.

Basis of Accounting

The accounting policies of Rural Water District No. 6, Hughes County, Oklahoma conform to the basic principles of governmental accounting and financial reporting set forth by the Governmental Accounting Standards Board.

The District is classified as an Enterprise Fund. The costs of providing the water services to the public are financed mainly through user charges. The financial statements of the District have been prepared using the accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred.

Restricted Assets

Restricted assets are cash and cash equivalents, whose use is limited by legal requirements. Restricted cash with fiscal agent represents amounts required by debt covenant to be segregated for debt payments and accrued interest on the notes.

United States Department of Agriculture-Rural Development requires monies to be held in reserve accounts. These reserve funds are to equal the note payments for one year. To be fully funded, these reserve funds must total \$56,412. As of August 31, 2013 and 2012, these reserve funds totaled \$56,500 and \$56,500 respectively.

Net Position

Net position presents the difference between assets and liabilities in the statement of net position. Net investment in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are legal limitations imposed on their use by District legislation or external restrictions by creditors, grantors, laws or regulations of other governments.

RURAL WATER DISTRICT NO. 6
HUGHES COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2013 AND 2021

NOTE 2 – CASH AND CASH EQUIVALENTS:

The District considers all checking, savings accounts and certificates of deposits with a maturity of three months or less (except restricted accounts) to be cash equivalents.

NOTE 3 - PROPERTY AND EQUIPMENT:

Depreciable assets are recorded at cost when purchased or constructed. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not. Depreciation is calculated on a straight-line basis over the estimated useful lives of the depreciable assets. Total depreciation for the year ended August 31, 2013 was \$107,796. The following is a summary by category of changes in property and equipment:

Category	8/31/12	Additions	Deletions	8/31/13
Land	\$ 85,518	\$	\$	\$ 85,518
Vehicles	79,445	30,000		109,445
Buildings	68,309			68,309
Waterline system	3,850,204			3,850,204
Machinery and equipment	89,429	250		89,679
Accumulated depreciation	(1,528,458)	(107,796)		(1,636,254)
Net	<u>\$ 2,644,447</u>	<u>\$ (77,546)</u>	<u>\$</u>	<u>\$ 2,566,901</u>

NOTE 4 – NOTES PAYABLE:

The District has entered into four note agreements with USDA-Rural Development for improvements to the water system. Collateral for these notes is all real and personal property of the District. The following is a detail of these notes:

	01	03	05	07
Date of note	11/17/1992	11/17/1992	9/13/1994	4/27/2001
Original amount	\$ 450,000	\$ 66,500	\$ 48,000	\$ 430,000
Maturity date	11/17/32	11/17/32	09/13/34	04/27/41
Interest rate	5.0%	5.0%	4.5%	4.5%
Payment amount	\$ 2,210	\$ 327	\$ 216	\$ 1,953
Balance at 8/31/11	\$ 341,560	\$ 50,263	\$ 36,969	\$ 382,203
Principle payments	\$ 8,866	\$ 1,325	\$ 870	\$ 5,854
Balance at 8/31/12	\$ 332,694	\$ 48,938	\$ 36,099	\$ 376,349
Principle payments	\$ 10,114	\$ 1,511	\$ 989	\$ 6,636
Balance at 8/31/13	\$ 332,580	\$ 47,427	\$ 35,110	\$ 369,713

RURAL WATER DISTRICT NO. 6
HUGHES COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2013 AND 2012

NOTE 4 – NOTES PAYABLE (Continued):

The following is a summary of the District's future annual debt requirements:

<u>Year Ending</u>	<u>Payments</u>	<u>Principle</u>	<u>Interest</u>
8/31/14	\$ 56,472	\$ 19,648	\$ 36,824
8/31/15	56,472	20,613	35,859
8/31/16	56,472	21,624	34,848
8/31/17	56,472	22,685	33,787
8/31/18	56,472	23,799	32,673
8/31/19-8/31/23	282,360	137,739	144,621
8/31/24-8/31/28	282,360	175,017	107,343
8/31/29-8/31/33	259,512	199,609	59,903
8/31/34-8/31/38	119,988	95,462	24,526
8/31/39-8/31/41	62,496	58,634	3,862
Total payments	<u>\$ 1,289,076</u>	<u>\$ 774,830</u>	<u>\$ 514,246</u>

NOTE 5 – ACCOUNTS RECEIVABLE:

The accounts receivable at August 31, 2013 and 2012 consisted of amounts due from customers for water and sewer services

NOTE 6 – AMORTIZATION OF LOAN COSTS:

The loan costs are being amortized over the life of the loan. Total amortization for the year ended August 31, 2013 and 2012 was \$806 and \$806, respectively.

NOTE 7 – INVESTMENTS:

The State of Oklahoma allows government entities to invest in the following: direct obligations of the United State Government, its agencies or instrumentalities; collateralized or insured certificates of deposit; insured savings accounts or savings certificates; or county, municipal or school district direct debt.

RURAL WATER DISTRICT NO. 6
HUGHES COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2013 AND 2012

NOTE 8 – DEPOSITS, INVESTMENTS AND COLLATERAL:

At August 31, 2012, all of the District's deposits were covered by Federal Depository Insurance Corporation or secured by collateral held by the District's agent in the District's name. At August 31, 2013 deposits were covered by Federal Depository Insurance Corporation except for \$13,000.

NOTE 9 – FAIR VALUE OF FINANCIAL INSTRUMENTS:

The District's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and notes payable. The District's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net assets. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

NOTE 10 – ESTIMATES:

The preparation of financial statements in conformity generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Accordingly, actual results could differ from those estimates.

NOTE 11 – RISK MANAGEMENT:

The District is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District manages this risk through the purchase of commercial insurance policies. Claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

NOTE 12 – CONTINGENCIES:

A lawsuit has been filed against the District by a water customer alleging the District's water rates were not charged in accordance with their Contract for the Sale of Water. The lawsuit seeks damages equal to their alleged overpayment for water in addition to attorney fees and costs. The District vigorously contested this lawsuit. During the year ended August 31, 2011, a judgment of \$12,753 had been awarded to the customer and accrued in the financial statements. This judgment was paid in full in September 2013. During the year ended August 31, 2013, a judgment of \$30,589 was awarded to the customer for attorney fees and this judgment has been accrued in the financial statements. At the date of this report the judgment for the attorney fees was on appeal.

RURAL WATER DISTRICT NO. 6,
HUGHES COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2013 AND 2012

NOTE 13 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through October 10, 2013, the date which the financial statements were available to be issued.